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C O N F I D E N T I A L KUWAIT 004147

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E.O. 12958: DECL: 10/17/2016  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [KU](#) [SA](#) [OIL](#) [SECTOR](#)  
SUBJECT: REFINERY DISPUTE WITH SAUDI ARABIAN TEXACO  
(CHEVRON): INPUT FOR P MEETING

REF: A. RIYADH 008253  
[1](#)B. KUWAIT 3936  
[1](#)C. KUWAIT 3751  
[1](#)D. KUWAIT 3720

Classified By: CDA Matt Tueller for reasons 1.4 (b) and (d).

[1](#)1. (C/NF) Post concurs with Embassy Riyadh's points in ref. A, but would add that further delay of Kuwaiti plans to build a new 615,000 bpd refinery could adversely affect U.S. companies considering participation in the project including Fluor, Parsons, GE, and Bechtel. In addition, the start of the project has already been delayed several times, and Kuwait needs to bring the refinery online in order to be able to decommission its aging and underperforming refinery at Shuaiba. Post also notes that selecting a new site for the refinery could be difficult for the GOK due to the density of both existing and planned population centers and infrastructure along Kuwait's coast. The GOK claims that there is no other viable site for construction of a refinery of this scale. Finally, in the context of ongoing power and water shortages (ref. D), Kuwait plans to use the fuel produced in the refinery to supply new and existing power plants, thereby increasing electrical capacity to meet growing demand.

[1](#)2. (C/NF) The Ambassador has raised the issue of Saudi Arabian Texaco's (SAT) complaint regarding the refinery site with both the Minister of Energy (ref. B) and the Chief Executive of Kuwait Petroleum Company (KPC) (ref. C). While noting that SAT is a subsidiary of Chevron, an American company, the Ambassador has repeatedly asked the GOK to engage directly with SAT to try to resolve the issue. The KPC chief told the Ambassador that the GOK expects the SAT to renew or extend the SAT concession, but said that the refinery should have no measurable impact on SAT's operations. SAT officials of course dispute this latter point vigorously.

[1](#)3. (C/NF) Post has been closely engaged with SAT on this issue and has visited the proposed site for the refinery. It is Post's assessment that although refinery construction may or may not directly impact SAT's current operations, the refinery would clearly impact SAT's housing and recreational areas and adversely affect the living conditions of SAT employees. Contradicting the assessment of Chevron executive Rasheed Al Rasheed (ref. A), SAT's chairman and the chairman of Kuwait Gulf Oil Company (KGOC), SAT's partner for joint operations in the partitioned neutral zone, have both told Post that SAT's steam injection pilot project has been a notable success. If the SAT indicates that it will renew or extend the SAT concession, KGOC and SAT both expect the steam injection project to ramp up significantly. Construction of

the Kuwaiti refinery on the proposed site could clearly  
impact SAT's expansion of this important project, which has  
the potential to significantly increase the recovery of heavy  
crude from the oil fields in the neutral zone.

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